

Mildred C. Wells Academy

Financial Report
with Supplemental Information
June 30, 2008

Mildred C. Wells Academy

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Independent Auditor's Report

To the Board of Directors
Mildred C. Wells Academy

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Mildred C. Wells Academy (the "Academy") as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Mildred C. Wells Academy's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Mildred C. Wells Academy as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Mildred C. Wells Academy

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mildred C. Wells Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2008, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 14, 2008

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Directors
Mildred C. Wells Academy

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Mildred C. Wells Academy as of and for the year ended June 30, 2008, which collectively comprise Mildred C. Wells Academy's basic financial statements, and have issued our report thereon dated October 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mildred C. Wells Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mildred C. Wells Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mildred C. Wells Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. The following deficiency was determined to be a significant deficiency:

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To the Board of Directors
Mildred C. Wells Academy

The Academy is required to recognize separately the principal and interest portion of debt payments made during the year. The portion of the debt payment attributed to principal should be recorded as an expense on the fund financial statements and reduce the outstanding debt of the Academy on the academy-wide financial statements. The Academy did not correctly allocate the principal and interest portion of the payments made on the capital lease during the year. The Academy properly made the payments on its capital lease, but did not properly allocate the payments between principal and interest. An audit journal entry was proposed and recorded to increase debt service principal and increase amount to be provided for long-term debt by \$40,858. Debt service principal was understated and amount to be provided for long-term debt was understated by \$40,858 on the fund financial statements. Total outstanding debt and amount to be provided for long-term debt were understated by \$40,858 on the academy-wide financial statements. The Academy did not properly review the terms of the capital lease to produce an accurate amortization schedule. The Academy should review all capital lease terms to ensure the activity is properly recorded in the Academy's accounting records. View of responsible official: the Academy will enhance its review of capital lease terms to ensure amounts are properly included in the Academy's accounting records.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mildred C. Wells Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Mildred C. Wells Academy's response to the significant deficiency identified in our audit and described above has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To the Board of Directors
Mildred C. Wells Academy

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 14, 2008

Mildred C. Wells Academy

Management's Discussion and Analysis

This section of Mildred C. Wells Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mildred C. Wells Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund - the General Fund - with all other funds presented in one column as nonmajor funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mildred C. Wells Academy

Management's Discussion and Analysis (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to its students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and food services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Services Fund is an example) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental Funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Mildred C. Wells Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2008 and 2007.

TABLE I

	Governmental Activities	
	June 30	
	2008	2007
Assets		
Current and other assets	\$ 422,030	\$ 524,626
Capital assets	<u>328,070</u>	<u>370,814</u>
Total assets	750,100	895,440
Liabilities		
Current liabilities	391,743	556,910
Long-term liabilities	<u>534,703</u>	<u>462,503</u>
Total liabilities	<u>926,446</u>	<u>1,019,413</u>
Deficiency in Net Assets		
Invested in capital assets - Net of related debt	196,549	158,053
Unrestricted	<u>(372,895)</u>	<u>(282,026)</u>
Total deficiency in net assets	<u>\$ (176,346)</u>	<u>\$ (123,973)</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's deficiency in net assets was (\$176,347) at June 30, 2008. Capital assets, net of related debt totaling \$196,549, compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund revenue as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The remaining amount of net assets (a deficit of \$378,473) was unrestricted.

The \$378,473 deficit in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund and the deferral of management fees will have a significant impact on the change in unrestricted net assets (deficit) from year to year as well as any deferred operating expenses.

Mildred C. Wells Academy

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the change in net assets for fiscal years 2008 and 2007.

TABLE 2

	Governmental Activities	
	June 30	
	2008	2007
Revenue		
Program revenue:		
Charges for services	\$ 1,150	\$ 579
Federal grants and entitlements	480,019	497,198
State categoricals	204,016	114,348
Operating grants	45,648	17,860
General revenue:		
State foundation allowance	1,391,192	1,351,930
Other	10,762	8,473
Total revenue	2,132,787	1,990,388
Functions/Program Expenses		
Instruction	756,787	694,834
Support services	1,151,491	1,147,346
Food services	121,535	106,542
Community services	5,268	1,180
Interest on long-term debt	19,709	26,979
Depreciation (unallocated)	130,370	108,793
Total functions/program expenses	2,185,160	2,085,674
Decrease in Net Assets	\$ (52,373)	\$ (95,286)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$2,185,160. Certain activities were partially funded by those who benefited from the programs (\$1,150) or by other governmental agencies and organizations that subsidized certain programs with grants (\$729,683). We paid for the remaining "public benefit" portion of our governmental activities with \$1,391,192 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The Academy experienced a decrease in net assets of \$52,373. The key reason for the decrease in net assets was an increase in long-term liabilities related to deferred expenses.

Mildred C. Wells Academy

Management's Discussion and Analysis (Continued)

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

The Academy's Funds

As noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$102,961, which is an increase of \$58,426 from last year. The change in fund balance is mainly the result of more revenue than anticipated.

The General Fund's fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2007-2008 General Fund original budget. Budgeted revenues were increased \$63,185 due mainly to an increase in anticipated federal revenue.

Budgeted expenditures were also increased \$108,216 due mainly to increased grant-related expenditures in added needs.

Significant variances between the final budget and actual amounts are disclosed in the notes to the financial statements.

Mildred C. Wells Academy

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the Academy had \$328,069 invested in a broad range of capital assets, including site improvements, leasehold improvements, furniture and equipment, and educational media.

	2008	2007
Site improvements	\$ 162,262	\$ 234,153
Leasehold improvements	29,275	15,210
Furniture and equipment	107,014	77,763
Educational media	29,519	43,688
Total capital assets	<u>\$ 328,070</u>	<u>\$ 370,814</u>

This year's additions of \$87,626 included leasehold improvements and various furniture and equipment. No new debt was issued for these additions.

No major capital projects are planned for the 2008-2009 fiscal year. We anticipate capital additions will be less than the 2007-2008 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$607,377 in long-term debt outstanding versus \$539,322 in the previous year - an increase of 13 percent. Long-term debt consists of notes payable, legal fee reimbursements, and deferred management fees.

We present more detailed information about our long-term liabilities in the notes to the financial statements.

Mildred C. Wells Academy

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our board and administration consider many factors when setting the Academy's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 budget was adopted in June 2008, based on an estimate of students who will be enrolled in September 2008. Approximately 70 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2009 school year, we anticipate that the fall student count will be about the same as the estimates used in creating the 2009 budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent revenue-estimating conference, the State estimates funds may not be sufficient to fund the appropriation.

Mildred C. Wells Academy

Statement of Net Assets June 30, 2008

	Governmental Activities
Assets	
Cash (Note 3)	\$ 56,762
Receivables - Net	315,100
Prepaid costs	50,168
Capital assets - Net (Note 4)	<u>328,070</u>
Total assets	750,100
Liabilities	
Accounts payable	13,999
Accrued payroll and other liabilities (Note 7)	175,872
State aid anticipation note (Note 9)	95,818
Deferred revenue (Note 10)	33,380
Long-term liabilities (Note 6):	
Due within one year	72,674
Due in more than one year	<u>534,703</u>
Total liabilities	<u>926,446</u>
Deficiency in Net Assets	
Investment in capital assets - Net of related debt	196,549
Deficiency in unrestricted net assets	<u>(372,895)</u>
Total deficiency in net assets	<u><u>\$ (176,346)</u></u>

Mildred C. Wells Academy

Statement of Activities Year Ended June 30, 2008

	Program Revenues			Governmental Activities
	Charges for	Operating		Net Expense
Expenses	Services	Grants/ Contributions		and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 756,787	\$ -	\$ 402,180	\$ (354,607)
Support services	1,151,491	-	207,146	(944,345)
Food services	121,535	1,150	120,357	(28)
Community services	5,268	-	-	(5,268)
Interest on long-term debt	19,709	-	-	(19,709)
Depreciation (unallocated)	130,370	-	-	(130,370)
Total governmental activities	<u>\$ 2,185,160</u>	<u>\$ 1,150</u>	<u>\$ 729,683</u>	(1,454,327)
General revenues:				
State aid not restricted to specific purposes				1,391,192
Other				<u>10,762</u>
Total general revenues				<u>1,401,954</u>
Change in Net Assets				(52,373)
Deficiency in Net Assets - Beginning of year				<u>(123,973)</u>
Deficiency in Net Assets - End of year				<u>\$ (176,346)</u>

Mildred C. Wells Academy

Governmental Funds Balance Sheet June 30, 2008

	General	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 56,762	\$ -	\$ 56,762
Receivables - Net	315,100	-	315,100
Prepaid costs	50,168	-	50,168
Total assets	<u>\$ 422,030</u>	<u>\$ -</u>	<u>\$ 422,030</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 13,999	\$ -	\$ 13,999
Accrued payroll and other liabilities (Note 7)	175,872	-	175,872
State aid anticipation note (Note 9)	95,818	-	95,818
Deferred revenue (Note 10)	33,380	-	33,380
Total liabilities	319,069	-	319,069
Fund Balances			
Reserved - Prepaid costs	50,168	-	50,168
Unreserved - Undesignated - Reported in General Fund	52,793	-	52,793
Total fund balances	102,961	-	102,961
Total liabilities and fund balances	<u>\$ 422,030</u>	<u>\$ -</u>	<u>\$ 422,030</u>

Mildred C. Wells Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

Fund Balance - Total governmental funds	\$	102,961
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:		
Cost of capital assets	\$	651,366
Accumulated depreciation	<u>(323,296)</u>	328,070
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Notes payable		(131,521)
Legal fee reimbursement		(30,254)
Deferred management fees		<u>(445,602)</u>
Deficiency in Net Assets - Governmental activities	<u>\$</u>	<u>(176,346)</u>

Mildred C. Wells Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenue			
Local sources	\$ 10,762	\$ 1,150	\$ 11,912
State sources	1,592,784	2,424	1,595,208
Federal sources	362,086	117,933	480,019
Intermediate sources	45,648	-	45,648
Total revenue	2,011,280	121,507	2,132,787
Expenditures			
Current:			
Instruction	784,594	-	784,594
Support services	1,192,454	-	1,192,454
Facilities acquisitions	18,856	-	18,856
Food services	-	121,535	121,535
Community services	5,268	-	5,268
Debt service:			
Principal	81,240	-	81,240
Interest	19,709	-	19,709
Total expenditures	2,102,121	121,535	2,223,656
Deficiency of Revenue Over Expenditures	(90,841)	(28)	(90,869)
Other Financing Sources (Uses)			
Transfers in	-	28	28
Transfers out	(28)	-	(28)
Proceeds from debt issuance	149,295	-	149,295
Total other financing sources	149,267	28	149,295
Net Change in Fund Balances	58,426	-	58,426
Fund Balances - Beginning of year	44,535	-	44,535
Fund Balances - End of year	<u>\$ 102,961</u>	<u>\$ -</u>	<u>\$ 102,961</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Mildred C. Wells Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total governmental funds	\$ 58,426
 Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	\$ (130,370)
Capitalized capital outlay	<u>87,626</u> (42,744)
 Debt issuance is not reported as financing sources on the statement of activities	 (149,295)
 Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	 <u>81,240</u>
 Change in Net Assets of Governmental Activities	 <u>\$ (52,373)</u>

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of Mildred C. Wells Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On February 16, 2005, the Academy entered into a contract with the Bay Mills Community College Board of Regents to charter a public school academy, which was extended through June 30, 2013. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Bay Mills Community College Board of Regents is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy paid the Bay Mills Community College Board of Regents 3 percent of the state aid payments as administrative fees. The total administrative fees for the year ended June 30, 2008 paid to the Bay Mills Community College Board of Regents was approximately \$47,000.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the Academy does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund type:

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund is the Food Services Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

Assets, Liabilities, and Net Assets or Equity

Cash - Cash includes cash on hand and demand deposits.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

All receivables, primarily intergovernmental receivables, are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

Long-term Obligations - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit). Full-term certificates of participation premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Long-term debt payable is reported net of the applicable premium or discount. Long-term debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize long-term debt premiums and discounts, as well as long-term debt issuance costs, during the current period.

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Capital Assets - Capital assets, which include leasehold improvements, furniture, and equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Site improvements, leasehold improvements, furniture, and equipment are depreciated using the straight-line method over the following useful lives:

Site improvements	5-15 years
Leasehold improvements	5 years
Furniture and other equipment	3-7 years
Educational media	5 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Academy incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Current -		
Support services:		
Instructional staff	\$ 79,020	\$ 107,363
General administration	109,478	176,269
Business services	56,577	94,949
Central	95,764	105,618

Note 3 - Deposits and Investments

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated two banks for the deposits of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at local banks; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is subject to custodial credit risk.

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$81,702 was entirely insured. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions and Reclassifications	Balance June 30, 2008
Capital assets:			
Site improvements	\$ 369,692	\$ 2,372	\$ 372,064
Leasehold improvements	16,710	16,484	33,194
Furniture and equipment	106,851	68,770	175,621
Educational media	70,487	-	70,487
Subtotal	563,740	87,626	651,366
Accumulated depreciation:			
Site improvements	135,539	74,263	209,802
Leasehold improvements	1,500	2,419	3,919
Furniture and equipment	29,088	39,519	68,607
Educational media	26,799	14,169	40,968
Subtotal	192,926	130,370	323,296
Net capital assets	\$ 370,814	\$ (42,744)	\$ 328,070

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note 5 - Lease Agreement

The Academy entered into an operating lease agreement for its modular buildings. The Academy is responsible for insurance, repairs, and maintenance. The Academy incurred rent expense in connection with the lease of approximately \$198,000 for the period ended June 30, 2008. The lease expires on September 1, 2010. Minimum annual payments required under the lease are as follows:

2009	\$	198,480
2010		198,480
2011		<u>33,080</u>
Total	\$	<u>430,040</u>

Related Party Land Lease - The Academy conducts operations on land owned by an affiliate of a member of the board of directors. The Academy entered into a one-year operating lease agreement for the land. The Academy incurred \$6,000 in rent expense in connection with the lease for the period ended June 30, 2008. The lease expired on June 30, 2008 and was renewed subsequent to year end for an additional one-year period to expire June 30, 2009.

Note 6 - Long-term Debt

The Academy issued notes payable to provide for the financing of site improvements for its major capital facilities and for the purchase of textbooks. It also entered into a management fee deferral agreement and an agreement to reimburse the management company for legal fees incurred during start-up (see Note 7). The notes, legal fees, and deferred management fees are general obligations of the Academy.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes payable	\$ 212,761	\$ -	\$ 81,240	\$ 131,521	\$ 67,632
Legal fees reimbursement	30,254	-	-	30,254	5,042
Deferred management fees	<u>296,307</u>	<u>149,295</u>	<u>-</u>	<u>445,602</u>	<u>-</u>
Total long-term debt	<u>\$ 539,322</u>	<u>\$ 149,295</u>	<u>\$ 81,240</u>	<u>\$ 607,377</u>	<u>\$ 72,674</u>

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

Notes payable consist of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
11/1/2005	\$ 257,878	8/1/2010	11.00%	\$ 16,593	\$ 119,721
12/13/2005	<u>75,000</u>	12/13/2008	5.69%	<u>223</u>	<u>11,800</u>
Total	<u>\$ 332,878</u>			<u>\$ 16,816</u>	<u>\$ 131,521</u>

Annual debt service requirements to maturity for the above note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 67,632	\$ 11,674	\$ 79,306
2010	62,290	4,990	67,280
2011	<u>1,599</u>	<u>152</u>	<u>1,751</u>
Total	<u>\$ 131,521</u>	<u>\$ 16,816</u>	<u>\$ 148,337</u>

Note 7 - Management Company

The Academy entered into a management agreement effective through February 28, 2009. The management company is responsible for all of the management, operation, administration, and education at the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs. In addition, the Academy pays a management fee of 12 percent of the gross revenues of the Academy.

The Academy incurred management fees totaling \$255,345 for the year ended June 30, 2008. At June 30, 2008, accrued expenses include approximately \$161,000 for reimbursement of subcontracted employees and other operating costs.

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note 7 - Management Company (Continued)

The Academy, based on the current management agreement, incurred management fees totaling \$255,345 for the year ended June 30, 2008. However, based on separate agreements, the management company agreed to defer management fees totaling \$148,952 for the year ended June 30, 2008, for total deferred management fees of \$445,259 at June 30, 2008. The deferred management fees are due on demand after July 1, 2009 and have been recorded as long-term debt at June 30, 2008. Interest is not being charged on this deferral.

The Academy entered into an agreement with the management company to reimburse the management company for legal expenses incurred by the management company on behalf of the Academy during the initial start-up phase of operations. The Academy has agreed to pay the management company \$30,254, in annual payments of \$5,042, through June 30, 2013. Legal expense and proceeds from long-term debt have been recorded during the year ended June 30, 2008. In addition, long-term debt of \$30,254 has been recorded at June 30, 2008. Interest is not being charged on this deferral.

For the year ended June 30, 2008, federal grant expenditures included \$32,905 paid to the management company for services including testing, assessment, curriculum, technical support, professional development, student support, school improvement, parental involvement activities, project supervision, grant administration, and reimbursement for indirect costs.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the management company discussed in Note 7. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Note 9 - State Aid Anticipation Note

During the fiscal year, the Academy borrowed \$527,000 in a state aid anticipation note. The note bore interest at a variable annual interest rate equal to 75 percent of the prime rate, adjusted monthly, and was paid in full on August 29, 2008. The effective rate at June 30, 2008 was 3.75 percent.

Mildred C. Wells Academy

Notes to Financial Statements June 30, 2008

Note 10 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue was as follows:

	Unavailable	Unearned
Deferred revenue	\$ -	\$ 33,380

Note 11 - Management's Plans

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Academy as a going concern. The Academy has a General Fund balance of \$103,100 and deferred management fees of \$445,259 and deferred legal fees of \$30,254. During the year ending June 30, 2009, the Academy plans to increase enrollment and revenue through aggressive marketing campaigns and better cost control. Management believes such measures will enable the Academy to build a fund balance and pay its deferred management fees.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Academy, which in turn is dependent upon the Academy's ability to meet its financing requirements and the success of future operations. Management believes that actions presently being taken to revise the Academy's operations provide the opportunity for the Academy to continue as a going concern.

Note 12 - Subsequent Events

Subsequent to year end, the Academy borrowed \$550,000 at a variable annual interest rate equal to 75 percent of the prime rate, adjusted monthly, on a state aid anticipation note. The note, plus interest, is due on August 30, 2008.

Required Supplemental Information

Mildred C. Wells Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 2,000	\$ 3,879	\$ 10,762	\$ 6,883
Other political subdivisions	-	2,000	-	(2,000)
State sources	1,670,435	1,542,355	1,592,784	50,429
Federal sources	171,297	358,683	362,086	3,403
Intermediate sources	-	-	45,648	45,648
Total revenue	1,843,732	1,906,917	2,011,280	104,363
Expenditures				
Current:				
Instruction:				
Basic programs	454,353	498,796	509,443	10,647
Added needs	164,821	267,768	275,151	7,383
Support services:				
Pupil	84,668	115,884	116,887	1,003
Instructional staff	97,433	79,020	107,363	28,343
General administration	173,532	109,478	176,269	66,791
School administration	128,241	138,268	145,171	6,903
Business services	88,955	56,577	94,949	38,372
Operation and maintenance	326,277	350,275	330,674	(19,601)
Pupil transportation services	143,178	109,843	115,523	5,680
Central	77,320	95,764	105,618	9,854
Community services	3,000	5,748	5,268	(480)
Facilities acquisitions	-	22,496	18,856	(3,640)
Debt service:				
Principal	93,683	75,500	81,240	5,740
Interest	-	18,260	19,709	1,449
Total expenditures	1,835,461	1,943,677	2,102,121	158,444
Other Financing Sources (Uses)				
Transfers in	2,500	38,991	-	(38,991)
Transfers out	(42)	(1,333)	(28)	1,305
Proceeds from debt issuance	-	-	149,295	149,295
Total other financing sources	2,458	37,658	149,267	111,609
Net Change in Fund Balance	10,729	898	58,426	57,528
Fund Balance - July 1, 2006	19,087	44,535	44,535	-
Fund Balance - June 30, 2007	<u>\$ 29,816</u>	<u>\$ 45,433</u>	<u>\$ 102,961</u>	<u>\$ 57,528</u>

Other Supplemental Information

Mildred C. Wells Academy

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance Nonmajor Governmental Fund Year Ended June 30, 2008

	Special Revenue Fund - Food Services
	<hr/>
Revenue	
Local sources	\$ 1,150
State sources	2,424
Federal sources	<hr/> 117,933
Total revenue	121,507
Expenditures - Current - Food services	<hr/> 121,535
Excess of Expenditures Over Revenue	(28)
Other Financing Sources - Transfers in	<hr/> 28
Net Change in Fund Balance	-
Fund Balance - Beginning of year	<hr/> -
Fund Balance - End of year	<hr/> <hr/> \$ -